File

Toronto Office

The Province of Alberta

IN THE MATTER OF "THE NATURAL GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into Scheme to be adopted for Gathering, Processing and Transmission of Natural Gas in Turner Valley

G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

Session:

CALGARY, Alberta September 18th, 1945

VOLUME 40

I N D E X

VOLUME 40.

18th September, 1945.

W I T N E S S E S

E X H I B I T S

: : : : :

VOLUME 40

18th September, 1945.
9.30 A.M. Session

CORRECTION: Exhibits 100 and 101 shown on the index of Volume 33, September 4th, 1945, should be deleted, these agreements having been filed as Exhibit 69.

Exhibits 100 and 101 are as shown on Index to Volume 34, September 5th, 1945.

. . . . . .

MR. HARVIE: Mr. Chairman, we have, during the recess, prepared several statements giving information asked for from time to time and perhaps we might file these before we proceed with the cross-examination.

The first statement is an answer to the information asked for or given in Mr. Donellan's evidence on the 13th of September, volume 39, page 3032, that is information that is given in connection with volume 2 and it might be a convenience if that were marked Exhibit 102(B) as we already have Exhibit 102(A).

THE CHAIRMAN: Is that agreeable to everyone to call it Exhibit 102(B)?

DOCUMENT PRODUCED HERE
MARKED EXHIBIT 102(B).

MR. HARVIE: Then there is a further statement supplementing that given which I would suggest be marked as Exhibit 102(C).

STATEMENT PRODUCED HERE
MARKED EXHIBIT 102(C).

MR. HARVIE: That starts "Evidence given on Thursday, September 13th, 1945 requested by Mr. Blanchard, I have prepared a copy of the working papers."

THE CHAIRMAN: What is the reference page in the

transcript?

MR. HARVIE: The same one, page 3032.

Then there is a further statement that is a reconciliation of the costs contained in the original estimates with the final costs. This might be marked as Exhibit 102(D).

STATEMENT PRODUCED HERE
MARKED EXHIBIT 102(D).

MR. HARVIE: Then there is another exhibit or a statement that is supplemental to our Volume 3, which contains the operating costs for the first seven months of this year and I would suggest that that be marked Exhibit 113(C).

STATEMENT PRODUCED HERE
MARKED EXHIBIT 113(C).

MR. HARVIE: Then the information which was asked for by Mr. Steer in Volume 29, page 3051, as to the volume of gas burned from 1936 on; that is contained in two sheets, one for the period from 1936 when the absorption plant operated down to the end of 1944 and one for the seven months' period of 1945.

THE CHAIRMAN: Will that be Exhibit 114?

MR. HARVIE: 114, I would suggest.

STATEMENT PRODUCED HERE
MARKED EXHIBIT 114.

THE CHAIRMAN: Is that all at the moment, Mr. Harvie?

MR. HARVIE: That is all at the moment.

THE CHAIRMAN: Mr. Steer.

: : : : :

ROBERT DONELLAN, having been recalled, cross-examination by Mr. Steer continued.

Q We were talking, Mr. Donellan, about the B.A. Plant as it existed from 1936, I think, until I think it was December, 1944 when the flared gas was put into the transmission lines to go to the Madison Scrubbing Plant, is that right?

A Yes.

Q And you described the absorption plant with its connected gathering system in which the B.A. had invested its money, that is right?

A Yes.

Q And that construction of the absorption plant and the gathering lines had been made for the purpose of recovering natural gasoline from the gas which was produced in the area tributary to the B.A. plant?

A Yes.

Q That is right?

A Yes.

Q Now then you have no doubt the book costs of that whole undertaking?

A I have not got them with me.

Q No, but you can get them.

A The information is available.

Q Yes, and I would like to ask you to let us have that, the book costs of that whole undertaking, its original costs that is to say its original cost and the depreciation which has been taken in the interval.

MR. HARVIE: I am objecting to giving that information, Mr. Chairman, in respect to anything but the assets which are being taken over by the utility company;

without any qualification at all as to those assets, their historical value I presume you could really ask for that information.

THE CHAIRMAN: You mean you are excluding the absorption plant.

MR. HARVIE: I say under all circumstances we think the absorption plant should be excluded from this hearing. As to the gas gathering lines which are being taken over by the utility, I submit their historical costs are something which have nothing to do with the present situation.

THE CHAIRMAN: You are not suggesting, Mr. Harvie, are you, that you are going to present us with that arrangement made by your own engineers and that we have no right to go further into it in our own valuation.

MR. HARVIE: You have already gone further through your accountants. That information has been supplied to your accountant, Mr. Hamilton. I do not see how the book values and the basis of depreciation is relevant in connection with this value as of today.

THE CHAIRMAN: Well I think we take a different view, Mr. Harvie.

MR. HARVIE: That is probably so.

THE CHAIRMAN: For the purposes of this Inquiry, I think you are quite right as to the absorption plant but as to the gathering lines we should have the information that Mr. Steer is asking for.

MR. HARVIE: We will speak to that later then if they are not available.

THE CHAIRMAN: Mr. Donellan says it is available.

MR. HARVIE: In Toronto.

Q MR. HARVIE: That is right, is it not, Mr. Donellan, the information is in Head Office in Toronto?

A Yes, you are talking about the value information, all of it is in Toronto but I could get the value of the gas gathering lines in Calgary, not of the whole plant.

Q THE CHAIRMAN: What Mr. Steer is asking for is the original cost of these gas gathering lines which we are now considering and the depreciation which has been charged up and the present book value of those assets or the book value of those assets when the subsidiary took over from the parent company.

A I can get those figures for the gas gathering lines, yes.

MR. STEER: You think, sir, I am not entitled to go into the absorption plant and I therefore accept that ruling at once but what I have in mind, sir, is that at some time or other there will be an argument put before you to the effect that the absorption plant, plus the gathering lines, are to be regarded as one integrated undertaking and it may quite well be that for the purposes of that submission we would require to know what the investment was in the absorption plant; that is the only purpose for which it is being asked.

THE CHAIRMAN: I think this, Mr. Steer, that when we come to determine the proportion of or rather the division of the natural gasoline absorbed in the plant, I think then that the whole question of the absorption plant becomes pertinent.

MR. STEER: Quite so. That of course, what you have in mind there is the division between the absorption plant proprietor and the producer.

THE CHAIRMAN: Yes.

MR. STEER: But what I have in mind is the proper division of costs as between the absorption plant proprietor and this utility.

THE CHAIRMAN: Yes, if there should be a division.

MR. STEER: If there should be a division.

Q MR. STEER: Tell me this, Mr. Donellan, the B.A.Gas Utilities Limited was incorporated when?

A December, 1944, it may have been January before the activities, before all formalities were completed, but it was going to be a company, or it was going into operation as of the 1st of January.

Q The 1st of January, 1945?

A Yes, starting operations in January 1945.

Q So that at the time these Hearings began, in May of 1944, that company had not been incorporated and British American Oil Company Limited was the sole proprietor of that whole undertaking?

A That is correct.

Q And you will furnish us with the original cost and the depreciation record of the high pressure gathering lines?

A Yes.

Q That is that were originally connected up with the absorption plant, is that right?

A Yes.

MR. HARVIE: That is subject to further advice.

WITNESS: Subject to that, of course.

Q MR. STEER: Now have you figured . . . . .

THE CHAIRMAN: Now just a moment, let us discuss this for a moment. If you had not incorporated this sub-

sidiary company, would it not be perfectly relevant and proper cross-examination and a proper demand for an inspection of the books and could you, by merely creating a subsidiary company, defeat that which otherwise would be quite proper.

MR. HARVIE: I submit, Mr. Chairman, that the cost of things ten years ago and what has been done with them by a private concern is not relevant to the costs of the assets and the value of the assets as of the day they were taken over by this utility.

THE CHAIRMAN: What would your view be if ten years ago the cost of your plant was a million dollars and by reason of deflation it was only worth five hundred thousand today?

MR. HARVIE: I would be prepared to answer that question if that were the case.

THE CHAIRMAN: Oh, but Mr. Harvie, we are trying to arrive at a proper procedure and you take a viewpoint under one set of circumstances and we want your viewpoint under another set of circumstances.

MR. HARVIE: Our viewpoint is the proper basis of the valuation as of the day they were taken over is the value as at that date.

THE CHAIRMAN: Then the British American Oil Company takes our place in valuing those assets.

MR. HARVIE: No, that is not our submission.

THE CHAIRMAN: What are we to do, simply accept your values and nothing more?

MR. HARVIE: No, you have the information on which to place the values on that basis. These records are out of the Province and where their relevancy is shown in evidence to be second hand and coming from other sources, I submit that the original values that this company paid or

placed on these assets at the time of the transfer has really no serious bearing on their value . . . . .

THE CHAIRMAN: Is there not a section in the Act which specifically provides that we can consider depreciation charged by the owner and even by a former owner and that we can even disregard it?

MR. HARVIE: Well I would suggest, Mr. Chairman, that if that is your view, that you so direct.

THE CHAIRMAN: Well that would be my direction, Mr. Harvie, that Mr. Donellan should get and furnish the information asked for. You say, of course, that Mr. Hamilton has it. Now supposing Mr. Hamilton were in the box and that Mr. Blanchard was going to lead him on that point, what objection could you have?

MR. HARVIE: Well I have already objected to Mr. Hamilton giving that information to the Board.

(Go to page 3064)

MR. BLANCHARD: Mr. Chairman, Mr. Hamilton's information is only what he has been told. He has not had inspection of the books and we have accepted that as being correct.

THE CHAIRMAN: We feel that the information should be produced as asked for, excluding the absorption plant. That will come up at a later date I have no doubt.

MR. STEER: Original cost and depreciation records of the high pressure gathering line and compressor station of the B. A. absorption plant as it existed in 1936 to December 1944 when the previous flare began delivering in the transmission line. Mr. Browning suggests that would be clearer if I said the gathering line system as valued by Mr. Ties.

A Oh yes. I know what you mean. I propose to include the water system while we are at it and make it complete.

Q MR. STEER: I will talk about the water system in a minute. I expect that will be all right. Now I see from Exhibit 114 that was produced this morning, that this B. A. plant in 1936 to 1944 treated 57.7 billion cubic feet of gas ?

A Correct.

Q And the disposition of that gas is shown as at 8.3 shrinkage through operation ?

A Yes, that is the shrinkage on operation.

Q Does that mean that that gas shrank in volume 8.3 by being processed ?

A That is the shrinkage resulting from abstracting the natural gas.

Q Then you have 16.6 fuel burned ?

A Yes.

Q That was in your own operations ?

A Yes, that was consumed, burning the boilers on the various

items of equipment.

Q Then you sold 12.3% for use in various parts of the field. Is that right ?

A Sold and delivered. I had to combine the two figures to deliveries, referring to the few cases where the operators sometimes took their own gas back. It was not necessarily all sold.

Q Quite so.

A The same type of gas.

Q So that means there was usefully employed 37.2% of gas, and there was wasted 62.8% ?

A That is correct.

Q Can you give your Company's estimate of what volume of gas that system - now we are excluding anything that happened since the new construction - we are talking about the absorption plant as of this high pressure gathering line system and I would like to get your Company's estimate of the amount of gas that would have been processed by that system for its natural life subsequent to the 1st of January 1945. As I pointed out to you the other day, my computation based on Mr. McCutchin's estimate showed that volume would be about 20 billion feet approximately ?

A Yes. After your request on Thursday I made enquiries along that line and I find the total estimated production from the high pressure wells, from the 1st of January 1945 is 18.57 billions and the total estimated through the low pressure is 31.75 billions.

Q Quite so. Now then having in mind that system as it has been described, certain orders were made by the Natural Gas Utilities Board and under those orders a high pressure transmission

line was erected from your flare to the Madison scrubbing ?

A Yes.

Q And the low pressure gathering system was installed with a low pressure compressor station ?

A That is correct.

Q And a high pressure reprocessing system was installed. Comparing the original proposal of your Company with the actual expenditures that were made in those constructions, there seems to have been a very grave under estimating of costs. I suppose you appreciate that ?

A In explanation of that we filed this morning Exhibit 102 (d) reconciling the original estimate and the final figure.

Q Am I right in this, because these over expenditures above estimates appear to be extremely serious. These estimates of yours were put before the Board as the basis upon which the Board should decide whether or not it would direct the expenditures. That is right ?

A Yes.

Q That is right ?

A Yes.

Q Now am I not right in this that your estimated cost of the high pressure transmission line was one hundred and forty-nine thousand odd dollars and the actual cost was $240,000.00 ?

A Correct.

Q That is right, and taking the low pressure system and the low pressure compressor station together, the 4estimate was approximately $152,000.00 against the actual expenditure of some $302,000.00 ?

A Yes.

Q And the high pressure system, was estimated to cost $178,995.00

and the actual was $243,700.00 ?

A Yes.

Q Now you will agree with me that those are gross under estimates of what those constructions were going to cost ?

A Well there is a gross difference between amounts of money involved but we have an explanation and the reason for that.

Q Now I have not been able to read that explanation, but perhaps you will give me in a general way so that those of us who do not like figures can understand it.

A Well we had war time conditions of labour so -

Q Well just a minute on that point. When was the estimate given. The war was on ?

A Oh yes, the labour situation deteriorated badly after the original estimate.

Q Did you go back to the Board and tell them that ?

A The matter I understand was discussed with the Board and certain changes were made in equipment and the Board I understood also had an engineer in charge supervising the actual construction to see that the work which was carried out was carried out under authority of the Wartime Labour Board.

Q You told us also about the war labour, what else ?

A The shortage of materials. For example, the original estimate looking at the high pressure line, low pressure gas gathering line, we were obliged to substitute 12 - 13" pipe whereas the original estimate was based on constructing 10" pipe.

Q That means that at the time the estimates were given you had not assured yourselves that you were going to get material ?

A Well at the time the estimates were given it was impossible to assure ourselves on account of priorities. We assumed that pipe was going to be available and the estimate was based on

the then ruling price of 10" pipe.

Q What enquiries were made as to the possibilities of delivery ?

A I do not know. The engineering people made the estimate.

Q In Toronto or here ?

A In Calgary.

Q Mr. McCutchin would know about that ?

A Mr. McCutchin was the -

Q All right, what else ?

A There was the charges under the Gentry contract as the estimate was based upon being able to get local labour and equipment. However it turned out obtaining local labour was practically unobtainable and the Gentry contract was taken. That took care of a very substantial portion of the over expenditure.

Q And am I right in thinking that you got the approval of the Board of the Gentry contract before it was let ?

A My understanding was that it was a matter of consultation with the Board. I do not know that I would say they gave their approval. They knew about it.

Q All right, what else ?

A Incidental to changing the size of the pipe, that also changed the cost of all the valves and fittings which went into the pipe. Those are the notes on the low pressure gathering line that I have. The same explanation applies for the low pressure gathering line. I see the original estimate calls for 4" pipe. We actually had to use 6" and 8" pipe. The Gentry contract called for 5000 of an excess cost. In the low pressure gathering line there is an item of conditional equipment which seems to be a small item. Auxiliary equipment for the low pressure compressor station accounted for $25,000.00

in one item alone there.

Q How did that come about, you had to put in $25,000.00 worth of equipment as I understand it which had not been originally estimated at all. Is that right ?

A That is the understanding I have.

Q What did the equipment consist of ?

A I do not know.

Q I wonder if engineers ought to overlook an item of that character. What do you think ?

A Well my experience is that engineers in estimating they always overlook something. They are always overlooking something.

Q We have a case here where we had some engineers employed on estimates under exactly the same conditions as yours were undertaken and the evidence is, I think, that they were out one or two percent ?

A Of course after the estimate is given and there is a change in the type of equipment, well when that change of equipment is discussed I can only assume the additional cost was discussed at the same time. I was assured by our engineering department that all that equipment had been installed with the knowledge and consent of the Board, that was all covered by the blanket order of the Board.

(Go to Page 3070)

Q I see.

Q THE CHAIRMAN: I think you should put it this way, that the Board's order was given as a blanket order based upon your estimate, that the only specific item that I can remember approving is the Gentry contract, and that was because of the need for haste, but quite frankly I think it should go on the record now, I have no recollection, - I am subject to correction, - of approving the different sizes of pipes being used to those approved of in the original estimate. We did approve of the Gentry contract because of the need for haste. No argument about that.

A My record shows that there is a letter from the Board approving forty-four thousand eight hundred odd dollars worth of additional expense which brought the original estimate up to five hundred and twenty-five, and the other excess item of expenses wo hundred and thirty-five. These are items that are part of that.

Q MR. STEER: Well you see, Mr. Donellan, the difficult position in which you put this Board, and the difficult position in which you put the people who have got to pay for these installations, whoever they are, when your actual expenditures are approximately double your estimate. Now that is not a fair position to put either the Board or the people who have got to pay this money, is it?

A Well I think there is the other side to take into consideration, that while there is this overcharge, over-expenditure compared to the original estimate, as I say, the Board had a resresentative engineer to make sure that the work being done was correct. The current vouchers from month to month were subject to examination by the Board's auditors so that both sides knew of the discrepancy which was in it.

Q I suppose at the time any audit examination of records was made, it was too late to go back, would that be right?

A The invoices always come through one to two months after the expenses are incurred.

Q Yes, I know, but once that order was given, and once this construction had really got under way, is there any possibility of withdrawing? Do you suggest that the Board could have revoked the order?

A Well that was a matter for the Board's discretion.

Q I wonder. And at the same time we have got the situation of another company of the same character carrying on construction of the same kind and not exceeding its estimate by more than one or two per cent, if my memory of the evidence serves me right. Now, how do you account for that, allowing for all these things that you have spoken of a moment ago, account for the fact that the Madison Company did not exceed by more than one or two per cent while you exceeded by fifty?

A Well this exhibit shows the Company's, gives the Company's explanation. This exhibit gives an explanation.

Q That is your only explanation?

A Yes sir.

Q All right. Now then, the figures that you have just given me, the processing of 18 billion through the high pressure system without any expenditure on the Board's order, the processing of an additional 31 billion, by reason of the low pressure installations, the effect of that is to increase the throughput of that absorption plant of yours 2½ times?

A Correct.

Q Or more of its normal expectation?

A Yes.

Q Is that right?

A Yes.

Q Within what length of time would you think that 18 billion could have been processed or would have been processed by your plant as it originally existed?

A I do not know.

Q Would it be three or four or five years?

A The evidence that I was reading the other day from Mr. McCutchin I think is somewhere, where he quoted three years.

Q Yes. So that you have got a plant there which is dead in three or four years, is that right?

A I do not know. A lot can happen in three or four years.

THE CHAIRMAN: Assume that conditions do not change?

A Assuming that conditions stay the way they are?

Q MR. STEER: What conditions might alter so as to enlarge the life of the plant?

A I do not know.

Q Would the Company, prior to this, to add 2½ times to its throughput, spend the money necessary for that low pressure line?

A Well they did not.

Q They allowed the gas to be wasted, of course, which is now to be done at somebody else's expense. You think that that matter was never considered by your Company?

A I have no means of expressing an opinion one way or the other.

Q You haven't any knowledge?

A I have no knowledge at all.

Q I see. So that the effect of the expenditure of some four hundred and fifty odd thousand dollars on the low pressure gathering system and the low pressure compressor station, is to increase 2½ times the original expected throughput of your plant?

A Correct.

Q I want to ask you a question or two about reserves. In the report that is filed, your report No. 1, which is Exhibit 51, the r servcs as at the end of 1944 are given as 51 billion, have you got that?

A Yes, I have that.

Q Now then, Exhibit 1(A), which was put in in the early stages of the Hearing, shows that for a ten year period it is expected that there will be 27.540 billion feet sold, would that be right?

A I have not got a copy of 1A.

Q I will let you have this one. What I am doing is taking that first ten year period and taking the 2754 multiplying it by 10 and you get 27.540 billion feet sold, is that right?

A Yes, that is right.

Q Then I will take your report No. 5, which is Exhibit 113 (B), and I notice a note here, "(a) The estimated B.A. throughput is 22.289 billion cubic feet," is that right?

A That is on page 8.

Q Yes. What I was wondering about is the discrepancy, if there is any discrepancy, and there seems to be, what is the explanation of that discrepancy, five billion?

A I will have to investigate that for you, Mr.Steer, and report back.

Q All right, that will be quite satisfactory.

A Inwould only be guessing if I said so now.

Q Yes, that is quite all right. Now, will you come back for the moment again to this 18 billion, which will be expected to be processed through the absorption plant as it originally stood, are you in a position to say by how much the amount processed would diminish from year to year?

A No.

Q I wonder if you could find that out for me? My understanding of what Mr. McCutchin said in the box was that if we will assume there is 7 billion processed in the first year, that there would be a less volume processed each year thereafter?

A Yes.

Q Now I would like you to give me figures on that if you can. I think Mr. McCutchin was dealing with so many million feet a day, and perhaps you can give me some figures both ways, the annual figures and daily figures, Mr.Donellan, giving me an idea of the amount by which annually the quantity processed through your plant would diminish in the normal course during this three or four years of its life?

A I see.

Q All right.

MR.HARVIE: In that connection I suppose it would be the same thing, Mr.Steer, if we gave you not the amount processed but the estimated amount through our gas gathering system, which is the subject matter of this Inquiry.

MR. STEER: No, that is not what I want. Mr. Chairman, what I want is the amount - what I have in mind is the increased efficiency.

THE CHAIRMAN: And life?

MR. STEER: And life of the absorption plant by reason of this increased quantity of gas, andI think the question as I asked it is what I require.

Q What I havein mind is this, Mr.Donellan, you have 18 billion throughput to look forward to. This low pressure system is installed and you have increased your throughput 2½ times. Now that additional 31 billion of throughput is going to be

used partly to make up the deficiency in the quantity that normally would be processed through your plant and partly it is going to be additional throughput over and above that which is required to make up the deficiency?

A Yes.

Q Do you follow me?

A Yes.

Q And I would like to ask you this: Over what length of time is it considered by your Company that the whole 50 odd billions, or is it 49 billion?

A Around 50.

Q It is around 50?

A Yes.

Q Over what length of time now is your plant going to be able to process that approximately 50 billions of gas?

A I see.

(Go to Page 3076).

Q Because you see we are faced with this situation, that without this scheme that whole fifty billion is going to be burned in the flare, is that right? Maybe it is fifty billion less your 8 per cent.

MR. HARVIE: Less your 37 per cent.

A Well, that is the amount . . . . .

MR. STEER: Perhaps that is right.

A Fifty billion less the amount we are going to use during the operations.

THE CHAIRMAN: And field fuel.

A And field fuel.

Q MR. STEER: Without the low compression system you are going to treat 18 billion of it and that is going to be subject to your 37 per cent shrinkage and this other 31 billion without your low pressure system is going to be burned in the air if oil is going to be produced.

A The answer is also on page 2 of that exhibit 113 that during the life of the plant to 1944 we flared 62.8 per cent of all our gas received.

Q Quite so.

A And in the 7 months' operation we have only flared 5 per cent.

Q Under the new scheme?

A Quite so.

Q And that really was the purpose of the installation of this equipment and that was the purpose, I am suggesting to you, of the passing of this Statute, to see that that 30 billions, if it could be rescued, would be and to see that your fire was put out.

A That is right.

Q That is the purpose?

A That is the whole purpose of the Act.

Q Of this legislation.

A And it has been successfully accomplished on the basis of these figures.

Q Quite so. Now I take you back to May, 1944 and at that time of course the severance between your absorption plant and your natural gas activities had not been made. I point out to you that Mr. McCutchin states on page 29 that it was not the intention of the company at that time to make any such severance, nor was it the intention of the company to make any charge to the gas business for the use of its gathering system. Is that right?

A Well I certainly know that the original understanding was that we would not put in gas gathering lines. I do not know that I remember anything so far as any charge.

Q There is another thing, and this is what Mr. McCutchin said at page 29, I think I understand what he means. If you have any other explanation to give, I would like to have it.

"There is another thing that might be pointed out in connection with the plan that I mention that has not been shown and the reason for it is that we have assumed that we have a going concern in the absorption plant. We have not provided the capital necessary to take over or buy the high pressure gas gathering lines that we have coming there and which are operating as a going concern."

Now that was the intention that Mr. McCutchin expressed at that time.

A Yes.

Q Since then, this severance of operations has taken place and a new company has been incorporated and there has been a

changed attitude on the part of your company. That is what you say now?

A Well a development of attitude.

Q A development?

A Yes, because when discussing the operations I remember Mr. McCutchin saying that originally he decided not to put in gas gathering lines but after all the gas gathering line was part and parcel of the gathering of gas and how was it going to be feasible to operate a system with half the gathering lines under one authority and the other half under another authority and from general discussion it was decided in the interests of efficiency it would be far better to transfer the gas gathering line. Originally I agree with you it was not Mr. McCutchin's intention to include them.

Q What I am suggesting to you, Mr. Donellan, is that Mr. McCutchin must have had in his mind some of the considerations which I have reviewed with you just previously and he must have had in his mind the fairness of the proposition that the gasoline business should bear part of the cost, at least part of the cost. What do you say to that?

A Well of course it is rather a different approach to what I had been preparing for here. I have always looked on this utility operation as a company for performing a service of collecting and distributing gas.

Q From where?

A Collecting gas from the producers and delivering it first to the absorption plant for the extraction of gasoline and then picking up the gas and delivering it to the market and the utility wants to get paid for that service.

Q Would you regard it more properly as a service for taking gas from the flares and getting it into a place where it

could be usefully used.

A No.

Q That is a point of view from which it could be regarded is it not?

A It could be, but that is not the way I look at it. I look on it more as a complete operation. In fact I do not know whether this is a good illustration but it is just something that has come into my mind, going over the history of our own company when we started operations our one main object was to extract kerosene. We used a little bit of gasoline but the rest of it was wasted, was flared. Market conditions altered and the gasoline was the main product. Surely nobody would suggest that all the cost of transporting crude oil should still be borne by the kerosene because that had been a condition for years up to that stage. I feel this gas operation is surely a different operation from the one that was carried on before.

Q In other words you get a market for your by-product gas. You get a market.

A That is right. There was no market before.

Q And then you say that the people who are buying your by-product are going to pay on your present computation 85 per cent of the cost of recovering the original product. That is your proposition.

A No, I say it is no longer a by-product, it is a main product, once we start this operation. Of course it is not a fututre by-product at all. It is one of the main objects of the whole system.

THE CHAIRMAN: Mr. Donellan, I just must interrupt. Is it not the case that your original submission to this Board was based, so far as your company is concerned, primarily upon the consideration of extending the line of your gasoline

plant?

A I do not know.

Q Primarily, so far as your company is concerned?

A That was a main consideration. I was not in at the discussions and I do not know what the main consideration was. It is only reasonable to assume that would be one very substantial item.

Q Have you read Mr. McCutchin's evidence in the May, 1944 session of this Hearing?

A It is a long time ago, I am afraid.

Q And have you read what Mr. Harvie said at that time?

A Not recently, to recall what it was.

Q Well do you recall enough of it to agree with me that that which I have just propounded to you could be taken as a reasonable deduction from what was said?

A Oh yes, that is my recollection.

THE CHAIRMAN: I am sorry, Mr. Steer, I just had to do that.

MR. STEER: Yes, sir.

Q You say that this gas operation has now got to be regarded, I think you used the word as one complete operation. What you say is, because of the construction of the transmission lines to the Scrubber and because of the construction of the low pressure system, that therefore this construction being made for the purpose of rescuing gas which would otherwise be wasted, that therefore these high pressure gathering lines must be regarded as part of that system?

A Yes.

Q That is your proposition?

A That is right.

Q I do not know that I need labour the point that I have already made, your company was committed to that high

pressure system, was it not, for good or ill?

A On the evidence that you have quoted, yes.

Q Yes of course it was, and your company stood either to gain or to lose money according to the useful life of that system, that is right?

A Yes.

Q Now whoever is going to pay the money for this new construction is to be saddled with 85 per cent of the operating costs of that new system and 85 per cent, as I understand your proposition now, of the present-day value of that system, which so far as the evidence we have discloses will be dead in three or four years. That is your proposition?

A Yes.

Q And you say that in your mind it is not a fair proposition that the absorption plant be left with its high pressure gathering lines for good or ill?

A Well I would say that it is not a good system for the utilities operation to have divided control of the source of its gas.

Q So ou put this forward as a fair proposition, one day we have got an absorption plant saddled with the high pressure gathering line system and all its costs.

A Yes.

Q A Board Order intervenes and then you say that that system has to pay 15 per cent of the capital costs of these gathering lines, is that right?

A I say this that our submission to the Board is this that the cost of performing the utility service is a given amount of money and the allocation of that cost as between the interested parties is for this Board to decide. Our suggestion is that a fair division is 15 per cent.

Q How is that arrived at?

A The 15 per cent?

Q Yes.

A That is the engineer's volume of gas which is used for burning and for shrinkage during operation, 10 per cent for one and 5 per cent for the other.

Q Then am I right in saying that your proposal does involve that, that it involves a charge of 15 per cent only of the present-day value of that high pressure system against the absorption plant?

A I would say it includes 15 per cent of all operations. It is not proposed to break the company's assets up.

Q We want you to break them up if you do not mind, and I will ask you if I am fair in saying that your proposal involves 15 per cent of the present-day value of the high pressure gathering system charged against the absorption plant and 15 per cent of the operating costs of that high pressure gathering system charged against the absorption plant.

A You have a duplication there, Mr. Steer. 15 per cent of the cost includes 15 per cent of the amortization of the gas gathering line.

Q Very well, we are agreed.

A Yes.

Q When you say 15 per cent of the operating costs that includes the amortization on Teis' valuation?

A That is right.

Q Therefore, what the absorption plant is going to pay is 15 per cent of the capital costs on Teis' valuation and 15 per cent of the operating costs as well.

A Yes, primary operating costs.

Q Then in addition to that, in spite of the 31 billion increase in capacity, this natural gas system is going to be charged with the whole of the low pressure sustem?

A Yes.

Q No consideration whatever or benefit to the absorption plant in this low pressure system is given in your proposal, is that right?

A Will you repeat that?

Q No consideration was given in your proposal to the benefit to the absorption plant from this low pressure system?

A No consideration was given because the whole submission is not based on the way you are trying to bring it out.

Q Yes?

A Yes, it would not be fair to say "Yes" or "No" to that question.

Q Let me put this to you, we will assume for the moment that this low pressure system, gathering lines plus compression, is a natural gas undertaking?

A Yes.

Q And as a natural gas undertaking the gasoline that is in that gas has to be extracted?

A Yes.

Q Is that right?

A Yes.

Q And would you consider it to be fair to demand that no accounting be asked for for that gasoline content, in that case?

A In the allocation of the service charge, yes, I would say the proportion and the amount which is used in the extraction operations does represent a fair suggested allocation of the costs.

Q I see, so that you carry your idea of a complete operation up - for natural gas - up to the point where the gasoline

extracted is what we call a by-product for the sake of the argument, but you say with respect to that by-product, the person who gets it has to pay a service charge and he has not to account for the by-oroduct at all.

A I can only repeat that our submission is not based on a natural gas operation in any manner or means. It is a statement of the cost of performing a service in collecting and transmittime gas.

Q Yes?

A And we are waiting to have the Board say who should get it. It is not a natural gas operation, the utility is not interested in gas, the utility company does not buy gas, it does not sell gas, it is not interested in gas in any manner or form. It is only interested in performing a service and we submit in Volume 3 what the cost of that service was. We hesitated a long time; my own view for a long time was that se should not go further. That we simply have to show what it is going to cost us to conduct the operations and then the Board will say who had to bear it, but in discussions we decided to go further but there is nothing in our statement which can be termed a natural gas operation.

Q I am not suggesting for a moment that there is, but you will not mind me trying to get your opinion on the situation looking at it from another point of view, will you?

A Oh no.

Q And the point of view I am asking you to adopt for the sake of this argument is that you have not a complete gas operation down there at all?

A We have not any operations.

Q Well you certainly have a gasoline operation through the

absorption plant, have you not?

A The British American Oil Company has.

Q Yes, certainly, and you are not here talking simply for the British American Utilities I hope; I want you to look at the situation from the point of view of all of us. Now you will admit you have a gasoline operation down there in the absorption plant, have you not?

A Yes, correct.

Q Now you say you want to render a service and I say to you that the only service you are rendering is to take that gas, which otherwise would be flared, and transport it up to the Madison scrubber, that is your service, is it not?

A No, because the utilities opration , that is 18 billion feet, but it has to collect 31 billion.

Q Let us look at it from the point of view of the 18 billion, that is the only service you have rendered?

A The utilities render a service to the absorption plant in collecting the gas for them to work on. That in the first instance.....

Q That is so, by reason of the incidental circumstance that your Company decided to organize a subsidiary to own the high pressure system.

A It would have been the same if it had been a division of our own company.

Q Perhaps and perhaps not. You insist on looking on this question from the point of view of service rendered?

A That is right.

Q Now you are talking about service rendered to the natural gas consumer, that is what you are doing, are you not?

A No, I am talking about the service rendered to three different

people, the producer of gas, the operator of the absorption plant and the consumer of gas.

Q I see. All right. Now we will deal with the 18 billion, and I say to you that all the services to the oil well operator and the absorption plant were being rendered prior to any new construction under this order.

A In connection with the 18 billion, yes.

Q Those services were being rendered in the interests of the absorption plant and it only?

A Correct.

Q That is right?

A Yes.

Q Then so far as that 18 billion is concerned, the service we are talking about is the service which is rendered in transmitting that otherwise flared gas from the absorption plant to the Madison scrubber, is that correct?

A That is correct.

Q And we will add to that the service which is rendered in transporting the G.O.P. flare up to the Madison scrubber?

A That is right.

Q That is a service?

A That is right.

Q Yes. Now then, with regard to the 31 billion, we are entitled to examine the situation first of all from the point of view of the absorption plant and then we are entitled to examine it from the point of view of the consumer of natural gas, do you think that is fair enough?

A Yes.

Q All right. Now if we regard that low pressure system as a part of the absorption plant operation, we say that the effect

of it is to increase the throughput of that absorption plant $2\frac{1}{2}$ times, is that not right?

A Correct.

Q Yes, and the absorption plant gets the benefit of all the gasoline, that is right?

A And the operator gets the benefit of the absorption gasoline.

Q Quite so?

A It is a dual benefit, of that 31 billion.

Q The absorption plant and the operator get that benefit?

A Yes.

Q Then from that point of view your service is still a transmission of the flare?

A Yes.

Q Is that right?

A A transmission to the market.

Q All right. Now if we look at it from the other point of view and regard the extensions of the low pressure system as being for the benefit of the gas consumer, would that be right?

A Well you want to start out with that suggestion.

Q If we start out with that proposition then your gasoline plant has not any claim upon that additional 31 billion at all, is that right?

A On your suggestion, if we start out on your suggestion that is right.

Q Yes, I see. Then perhaps you might have a small claim, you might have a claim for the treating of that gas on the basis of interim costs, do you think that would be fair?

A No, if any other party wanted to collect that gas by a low pressure system, they could come to us as a customer and say "Under what arrangements and terms and conditions will you extract the natural gasoline from it?"

Q You see the difficulty about that is that I am up against the situation from the point of view of the British American Oil Company being in the field in the Fall of 1944, and if there had not been that severance in these lines the situation might have been entirely different, is that right?

A Well, it was different. The British American Oil Company would not have had any capital in the gas gathering lines. Other people's capital would have been involved.

Q Would you have any idea, how much gasoline there would be in this 31 billion extra feet of gas, what is your recovery?

A Your question is so obvious but I do not believe I have got it, Mr.Steer.

Q Well you can get it?

A I am sorry, I can get it for you.

Q We will let that stand then. Now I would like to ask you a question or two about this water system, can you describe to us the mechanics of this water system?

A Yes, I think I can.

Q Where is it located?

A On the Highwood River.

Q And when was it built?

A In the original construction of the plant in 1936.

Q And what additions or alterations have been made in it since, that you know of?

A It has been kept in good condition and recently we have changed the motors from gas motors to electric motors.

Q So substantially it is in the same condition today? It is in the same condition today as it was when it was constructed in 1936?

A Right.

Q- And it was built on the Highwood River and took water from the Highwood River to where?

A To the absorption plant.

Q For what purpose?

A Oh, for the cooling tower operations and I guess wherever they do use water around an absorption plant.

Q And then the Board's orderintervened and there was a severqnce of the assets and the water system had to be used for what additional purposes?

A For the cooling tower operations and originally for the spray pond which was used for the compressor station?

Q I understand it was suggested in your submission that 25% of the capacity of the water system is devoted to the low pressure system and 75% is devoted to the purposes of the absorption plant, is that right?

A That is right.

Q Who made those calculations?

A The engineer, Mr. McCutchin was in charge, and he gave them to us based on.....

Q He gave them to you?

A Yes.

Q Do you know if there will be any engineer in the box who will answer this question for us as to why that was done?

A I can tell you why it was done. In connection with the water plant I happen to be the guilty party.

Q Youdo not look very guilty, what did you do?

A Well in going over the costs I came across the cost of water, which is a very substantial part of the operating expenses, and I suggested to Mr. McCutchin at the time that this Board has

the right to order that we must keep our books in Calgary. Now I suggested instead of the British American Oil Company billing the absorption plant with water, that it turn the water plant over to the Utilities and let the Utilities bill the British American Oil Company, so that they could see that a fair charge is made. We adopted that suggestion but really our Company is, it is practically immaterial to it. The water plant could be withdrawn tomorrow but the making of the charge for water, it was to facilitate accounting matters only that the water plant was put in in that way. I thought it was one of the main items of expense, and if it was going to facilitate matters, I thought it would be far better to keep the records here so that the Board's auditors could check the water and satisfy themselves that a correct billing was made for the water used, instead of having those records in Toronto.

(Go to page 3091)

Q And your Company is quite willing to drop the whole water system ?

A And take it out if necessary.

Q What I was interested in was on what basis was the division of 75 -25 ?

A That was our discussion as to how we could divide the cost. We have not got meters and Mr. McCutchin said I am not going to suggest it is worth while putting in meters. They are expensive. He did give instructions and I was there when he gave them, to have a careful check made of the water and then advise me as to the division 75 - 25.

Q What new construction if any was necessitated by the use of water by the compressor ?

A New construction of additions to the water plant, I cannot tell you.

Q I think you told me so far as the plant itself was concerned it was in substantially the same condition but what I am interested in, what expenditures did your Company have to make in order to connect up with that water system with this additional construction ?

A I will have to look it up. It is apparently nominal.

Q Perhaps if you say it is nominal it did not amount to anything ?

A Yes I am prepared to say that.

Q In Volume 2 of your report, Supplement 1 on Page C, you have estimated future expenditure as $32,151.00 ?

A Yes.

Q And you ask for interest at 9½% net on that amount. Just excuse me for a moment.

DR. BOOMER: Are you talking about Volume 2 or 3 ?

I N D E X

VOLUME 40.

18th September, 1945.

W I T N E S S E S

E X H I B I T S

: : : : :

A Supplement to Volume 2.

MR. STEER: Volume 2, Supplement 1, Page C.

A Exhibit 102 A.

Q MR. STEER: On this Page C, you say, "interest on capital disbursements. In accordance with standard public utility procedure, interest on capital during construction has been calculated and included as an item of the cost of construction. Construction work commenced in June 1944, and was completed by March 1st, 1945. Total disbursement in connection with capital expenditure to this date, amounts to $728,653.85", and you ask for interest on that at 9½% net, on 50% of that amount for the six months ending December 31st, 1944, or $28,836.47. That money, of course, either was in your Company's till or could have been borrowed from the Bank at the going rate of interest ?

A Well the fund used for construction, was the ordinary supply of funds of the Company.

Q And if the Company did not have them, the Company could have gone to the Bank and borrowed them ?

A Yes.

Q At the outside at 5% ?

A But they also used it. Your statement is quite correct.

Q I wonder why 15.83 is asked on that money under those circumstances ?

A Because as we stated in our submission, we feel 9½% net rate is a fair rate of return on the period of operation and of course if we can prove our contention that the money is worth, has got earning capacity during operations, it would have the same capacity during the period as if tied up during construction.

Q I suppose the rate base has got to be determined when the construction is completed has it not ?

A Yes.

Q Would it not be an early enough time to earn 15.83 if you could get the money for 5% in the interval ?

A No when we have been paying money out from July 1944, I think we are entitled to let that money have its same earning capacity as the other working funds of the Company.

Q Even if it was interest ?

A Yes, even if it was interest.

Q Most people regard interest as an expense of carrying on their business don't they ?

A Yes.

Q Now what I intended to ask you about the $32,151.00 was whether or not we can add 100% to that. In other words if the same errors in this estimate of future expenditures has occurred in the original one ?

A Well I do not know about errors. I think there was one contemplated in contingency. It was felt contingencies were all embracing. The cost of this Hearing. That is stretching out much farther than we thought.

Q That won't pay for it ?

A I will say this, that to date there is nothing further developed so far that is not covered by that statement. Contingency, that has been encroached upon and may be further encroached upon but it has not all been quite used yet.

Q I may, Mr. Chairman, I may have some further questions based upon an examination of these Exhibits filed this morning.

THE CHAIRMAN: We will take the morning adjournment at this point.

(At this time the Hearing adjourned for a few minutes)

Q MR. STEER: May I ask a few more questions that I should have asked before. Mr. Donellan, what is the relationship between the absorption plant of the B. A. Company and the refinery which that Company operates in Calgary ?

A Well each of our refineries and the absorption plant, they are operated as independent departments of the Company. They have no connection one with the other.

Q You have two refineries ?

A We have five.

Q Where are they ?

A Montreal -

Q But in this situation here you have only one ?

A Just the one in Calgary.

Q Am I right in thinking that the gasoline that is extracted in the absorption plant is shipped by you to your Calgary Refinery ?

A Up to the middle of 1943, it was practically all used in the Calgary Refinery. Subsequent to the middle of 1943 there was an Alkylate plant opened and the type of product was changed from twenty-six pounds to forty-five pound product and since the Alkylation Plant has been opened the product goes from the absorption plant to the alkylation plant.

Q And that alkylate plant is operated by War Assets Corporation or is it operated by I mperial Oil Company ?

A It is operated by the Imperial.

Q And up to the time when you ceased to ship your gasoline entirely to the B. A. Refinery how would that gasoline be charged to the Refinery, at the going market prices ?

A A book entry was made at the posted price but the financial books were at the actual cost of operation. In other words we had a dual statement.

Q That is to say in the controlling books the product was charged to the Refinery at the actual cost of producing it in the absorption plant ?

A In the summary, but we did have a detailed statement using the posted price just as a yard stick.

Q To that extent then it would seem the absorption plant was not severed from the refinery ?

A Oh yes, quite separate, cost of operation for the absorption plant. One is taken, the cost of operations of the refineries.

Q I understood you to say a moment ago your real important books charged the product to the refinery at its actual cost price ?

A Not to the refinery, to the cost of operation. You see our Company operates on the basis that we never attempt to take a profit off any refinery. We maintain that profit is not determined until the product is sold.

Q In other words what you are interested in is the cost of a gallon of gasoline that is produced in your refinery and the cost in the absorption plant gathering cost ?

A No that includes the cost of the product manufactured. If you are dealing with the Calgary Refinery, we have a detailed statement of the Calgary Refinery that we use so much crude, so much absorption gasoline at the Turner Valley posted price.

Q That is your departmental books ?

A That is the departmental books.

Q In addition to that you have a record that takes a gallon of gasoline sold out of your refinery and charges against that all costs from the time -

A No the other one simply deals in total dollars for all the Company's refineries, the cost of manufacturing. In other words we judge the efficiency of our refineries from the cost point of

view, not on a profit angle.

Q Just what do you mean by that ?

A Well we will say it is an impossibility to determine the profit of a manufacturing department. Manufacturing department is nothing but a large expense department manufacturing a product for sale. There is no profit realized until that merchandise is actually sold.

Q Why do you keep the separate books for these separate operations. Why do you keep a separate book for the absorption plant and separate books for the refinery ?

A So that we can see the results of our operations unit and check one unit against another.

Q It is a matter I suppose of considerable importance that a refinery such as yours in Calgary have access to the absorption plant product ?

A To casing head gasoline, yes.

Q And even if in the future it were found that it would be unprofitable to operate the absorption plant alone, it might still be profitable to operate it in conjunction with your refinery for the purpose of getting that natural gasoline ?

A Well that would depend upon the market value of casing head gasoline. If it was going to cost two or three times as much per gallon of absorption out of the Turner Valley plant as it does today, it would have to be seriously considered, while now we can buy at a certain price, what guarantee is there of continuity of supply and the price, it would be a matter of policy decision.

Q Where do you get your casing head for example for your Montreal plant ?

A We buy in the market and import it.

Q From where ?

A Wherever we can get it, sometimes from the States, sometimes from other people in Canada.

Q You would not ship it from here ?

A No, never been shipped from here.

Q Well that maybe makes a difference. Am I right in this, from the time the gasoline plant began operations in Calgary that you then began manufacturing iso-butane at that absorption plant ?

A Well I guess that I may be confused between iso-butane and pentane, but I know we changed the product from a twenty-six pound product to a forty-five pound product to facilitate -

Q Maybe Dr. Boomer will tell us whether that forty-five pound product is iso-butane.

(Go to Page 3098)

DR. BOOMER: I do not know. Contains iso-butanes?

MR. STEER: Contains iso-butanes?

DR. BOOMER: Natural gasoline including iso-buranes.

Q MR. STEER: Do you understand the purpose of the alkylate plant to be to recover the iso-butane from this heavy product? Perhaps Dr. Boomer can help us?

MR. HARVIE: Mr. Chairman, I do not wish to interrupt unnecessarily, but it seems to me that if we are going to go into the use and cost of a product, twice removed from this operation, and there is going to be any question arising from that with regard to the operating charges and costs, or the rates charged users with regard to the service of this utility, then it will mean that we will have to go into costs of every consumer of gas or any products from gas,right along the whole line, and it seems to me it is entirely beyond the scope of this Commission.

THE CHAIRMAN: I do not know. It seems to me that it may have a relationship in the matter of the allocation, if there is an allocation, of the costs of gathering and distribution.

MR. HARVIE: Well, granting that that be the case, would that same remark not apply to the ammonia plant, to Burns or to anyother consumer, and if so, it is quite involved.

THE CHAIRMAN: Well when you have an integrated corporation.....

MR. HARVIE: And also what you sell the gas in the field for, and what profit anybody else makes in the business.

THE CHAIRMAN: But you have an integrated Corporation here which, for accounting purposes, is divided into several different departments. For instance, I have a question written down which has some bearing on what Mr.Steer has asked. I think it is a perfectly proper question. And that is this, "Would it be correct to say that there may be no relationship whatever between the posted price for natural gas and the cost of producing it?" And there is no relationship or need be no relationship because the refinery needs it, and if so, if that is so, might not that have some effect upon our adjudication in the allocation of capital and operating costs, if there is to be any?

MR.HARVIE: Well, I will say, that you should go down the list and deal with all the consumers and producers.

THE CHAIRMAN: Until Mr.Steer goes into the details of percentage of profit and that sort of thing with relationship to the gathering lines, absorption plant and the refinery, I do not propose to stop him. If he proposes to go into the details of that, then he is going too far. As I understand it, Mr. Steer, you intend to confine yourself to those generalities?

MR. STEER: Oh yes. For two reasons. One is that I think it answers my purpose, and the other is that I would hate to undertake the other investigation.

Q I wonder then if that is correct, Mr. Donellan, that this heavy 45 pound product that you began to manufacture was sent to the alkylate plant and from that product was recovered in the alkylate plant the very valueble iso-butane that was necessary for the making of high octane gasoline?

A That is the way I understand it.

Q And the operation of your absorption plant subsequent to the installation of the alkylate plant should have been much more profitable?

A I do not know the profit. The index I spoke about will show a considerable increase in the 45 pound product. To straighten the record on the other item, I think we had better complete it, after it has gone through the alkylation plant, after the alkylation plant has extracted the iso-butanes then the resultant product goes on to the Calgary Refinery.

Q Now, you are going to give me some figures or, at least, I think you are going to give me some figures on the profits that would be obtained through the absorption plant on this extra 30 billion?

A The profit that would be obtained? I did not understand that.

MR.HARVIE: The profit did you say?

MR. STEER: Yes.

Q Perhaps it was confined to revenue?

A It was confined to volume. That is the only note I made this morning.

Q The volume?

A The volume only.

Q The volume of what?

A Of the natural gasoline.

Q Of the natural gasoline?

A Yes.

Q I see.

A I would be in difficulties there. Even if I gave you revenues I would be in difficulty. I could give you the Turner Valley posted price which is the yardstick applied for book purposes,

but I do not think that is a fair statement of value. I have seen the time when the posted price was a given price, but during the distress conditions we could lay it down for a quarter of that.

Q Yes. Now, in giving us those figures you are going to give not only the natural gasoline content but you will give us what would have been taken out of that 30 billion feet in the manufacture of this 45 pound product?

A You mean, assuming that we are going to carry on with the 45 pound product?

Q Yes?

A That shall be in the realm of guesswork. The day before I left Toronto the Montreal Alkylation plant closed down tight. If I give you the engineer's estimate on this 50 billion on the 45 pound product, I do not know how long the Calgary Alkylation Plant is going to run.

Q Perhaps not. Perhaps you had better give it to me.....

A I will give you the alternative of the two. I will try to make it up on both bases.

Q All right. That is all.

THE CHAIRMAN: Mr. Fenerty?

MR. FENERTY: Nothing, Sir.

THE CHAIRMAN: Mr. McDonald?

.....

CROSS-EXAMINATION BY MR. McDONALD.

Q Mr.Donellan, Mr. t-er has examined you in connection with the comparisons of estimates capital expenditures as per Exhibit 1?

A Yes.

Q And actual and estimated capital expenditures as per your Exhibit 102(A). Now I have prepared a statement dealing with that item, and also with the comparison of estimated costs of operations as between Exhibit 1 and Exhibit 113(A).

A Yes.

Q And I will put those in.

THE CHAIRMAN: Exhibit 115.

COMPARISON OF BRITISH AMERICAN ESTIMATE OF CAPITAL EXPENDITURES AS PER EXHIBIT 1 AND ACTUAL AND ESTIMATED CAPITAL EXPENDITURES AS PER EXHIBIT 102A -and- COMPARISON OF ESTIMATED COST OF OPERATIONS BRITISH AMERICAN GAS UTILITIES LIMITED AS BETWEEN EXHIBIT 1 AND EXHIBIT 113A, - MARKED AS EXHIBIT 115.

Q MR. McDONALD: Now if you will refer to page 1, you will note that I took as the total estimated expenditure in Exhibit 1 $480,681.00?

A Correct.

Q And it is only fair to say that subsequent to that estimate additional expenditures were authorized by the Board to the value of $44,885.00 as shown by your Exhibit 102(D) but on the basis of the original estimate in Exhibit 1 as against the total actual expenditures with regard to Exhibit 102(A), the percentage of excess actual over estimate is 70.35%.

A That is excluding there from your final column, the value of the gas gathering lines.

Q Yes, excluding the $154,010.00 with regard to the high pressure gathering lines?

A Yes.

Q Dealing with operating costs on page 2, which were taken from Exhibit 1 in accordance with the details and set out on page 3?

A Yes.

Q And it was carried forward, the five and seven year depreciation allowance which Mr. McCutchin calculated, and given in Exhibit 1, the only difference between his exhibit is that the return on investments which was calculated by Mr. McCutchin at 9½%, has been increased to 15.83%. You will check those against Mr. McCutchin's exhibit?

A Yes.

Q So that on that basis the increased percentage of excess over estimate on Exhibit 113 over Exhibit 1, Exhibit 113(A) over Exhibit 1, is 85.6%. Have you checked those figures?

A Yes, those figures are correct. There is one amendment I would suggest in fairness to our submission.

Q Yes?

A That instead of taking Exhibit 113(A) we should take Volume 5, 113(B), and on page 5 you will note that we are suggesting British American should carry $13,860.00 as its share of the gas gathering lines' estimated cost. We are suggesting British American should pay $9,592.00 as their share of the water cost, and $26,372.00 is put in as an estimate of a fair share of the cost in connection with the G.O.P. gas. So that the total as to Volume 5 is $278,545.00 as against your figure of $328,269.00. There is still, of course, a substantial increase of $101,752.00 to be accounted for.

Q Yes?

A In trying to get a set of figures, analyze these figures to refer to you, I broke up those three which I have just

mentioned into their component parts so I could compare item by item on the submission. The total of those credits amount to $49,724.00,which is made up of operating costs $9,397.00, administration charges $2,117.00, portion of amortization $15,138.00, portion of return on investments $23,072.00. So that with regard to the amortization of capital expenditures and the return on investments, the increased costs on those two particular items are dependent on the Boad's final decision as to which final amount of capital expenditures they are going to allow, and the rate of return. So that during all the time that I had at my disposal I concentrated on comparing operation costs and administration with the two items referred to.

(Go to Page 3105).

While Exhibit 1, as per statement attached, column 1, shows operating costs as being $39,100, exhibit 1 (A) which was filed either the same day or the day after, at the same time of evidence, showed statements of operating costs, $38,700 with an administration charge, as it was called then, I believe, supervision and technical services, $15,000.

Q MR. BLANCHARD: $12,000 per year wasn't it?

A That is in one section and another section is $3,000. That is $12,000 and $3,000, I think you will find in Exhibit 1 (A).

MR. CHAMBERS: That is right.

MR. BLANCHARD: I have page 3. Where is the other? Oh yes, I see.

A So that we are faced with an original estimate of operating costs, plus administration, as per Exhibit 1(A), of $53,700 and the estimated cost as per Exhibit 113(A) is $70,007. I summarized the statements. I have not had the time to have them out in the form of an Exhibit but I will read them off. The charges not included in the preliminary estimate in connection with the low pressure gas gathering lines amounted to $1,656. That $1.656 is . . . . . One general explanation, I think, will suffice for each of the departmental costs and I am going to read it. The initial submission was based on estimates of labor, maintenance and repair, field management and supervision. As the work proceeded, the engineers got closer to getting the actual operations and broke it down as between labor, repairs and maintenance, field management and supervision, taxes, insurance, workmen's compensation, steam and electric power, trucks' expense, office expense and general expense. The $1,656 referred to is the increase in the estimated cost of the gas gathering lines and is $700 in

connection with electric power, $665 for office expense and $250 general expense and $297 in connection with taxes. The low pressure compressor station, similar items call for an increase of $3,292. The high pressure compressor station, $4,475. High pressure lines, $4,411. Repressuring line, $519, to which was added the estimated operating costs of the high pressure gas gathering lines, $8,867. The estimates of operating costs of the water system, $4,601. Those account for a total of $81,521 against which we apply a proportionate part of the credit referred to earlier of $11,514 leaving a net of $70,007. These figures are not available for everybody but I will have this statement typed tomorrow. There is really no outstanding feature accounting for the difference in operating costs. The balance of it is dependent on capital expense and rate of return.

Q MR. McDONALD: Now I am just interested in Exhibit 113(C) filed this morning, Mr. Donellan. That is the statement of actual operating costs of the B.A. Utilities, exclusive of amortization of investment?

A Yes.

Q Now I notice that the total net, after allowing all credits for the sundry services rendered other parties, is $41,102.46.

A Yes.

Q And taking that average over the 7 months, I have $5,872.85.

THE CHAIRMAN: What items do you use to get that figure, Mr. McDonald?

MR. McDONALD: I take the first column, the total.

A I think I see what you are driving at, Mr. McDonald. I submit if we take that $49,850.17 as being the gross that that compares with page 1, column 3.

Q That is what I was coming at.

A I have not worked it out but I will get Mr. Lindsay to work it out for me.

Q What I wanted to do was to take the gross total costs in the first column, $49,850.17, and see what the average per month would be and then carry it through to the 12 months and compare it to the estimated annual charge for gross operating in Exhibit 113(A) at page 2, which gives a total of $66,521.

A That is roughly an estimate and shows $39,000 for 7 months whereas the actual is $41,000, which I think is remarkably close in view of the fact that this is the initial period of operations with the usual jogs to iron out when a system starts.

Q So that you can say with some certainty now that your estimate of $66,521 for the 12 months has been borne out by the first 7 months of operation?

A Yes.

Q It is not unduly excessive and neither is it unduly ,. . . .

A We are a little overrun on the proportionate basis. We have not had a complete cycle of operations and we did run into the usual difficulties in January, and when these are less than $2500 I think we can say that the actual operating expenses are in line with the estimate, Exhibit 113(A).

Q I am more interested in attempting now to arrive at an opinion that for the next 10 years the $66,521 is reasonable. You have carried it forward for the next 10 years.

A Yes. Well estimating is the province of engineers and we have certainly got evidence to support the fact that if the rest of the work is done as thoroughly as it has been done so far, we can accept their estimate for the future 10 years with confidence.

Q What I am particularly interested in is that it will not be

76 thousand or 75 thousand dollars next year.

A There is nothing to indicate that is going to happen.

Q DR. BOOMER: Mr. Donellan, you do not consider the low pressure compressor station part of the gathering system?

A No. We have broken it up here as between the gathering system and the compressor station just as . . . . .

Q The low pressure gathering lines are used to the absorption plant.

A The break-down of this was arranged between Mr. McCutchin and I believe the Board's Order. I said "how do you want your operating expense prepared," and Mr. McCutchin said "how do you want it for the management" and I believe it was submitted to Mr. Roach and he was satisfied from a checking point of view. That is the main object of separating it was to meet their requirements.

Q MR.MCDONALD: Now, Mr. Donellan, your whole estimate of operating expenses is on the basis of 10 years straight line depreciation?

A Right.

Q You have calculated your rate of return at 9½ per cent net?

A Yes.

Q As I understand it, at the end of 10 years if this system is still in service there will be no capital expenditure to which the British American or the B.A. Utilities Limited are entitled to that 9½ per cent net.

A Yes. That is the rate of return will reduce each year according to the amount of capital which has not been amortized.

Q From that time on the matter of the service charge or some just operating costs of the B.A. Utilities will be a matter

for the Board to consider.

A That will be the subject of another decision.

Q Can you tell me roughly how you arrive at this 9½ per cent net?

A Simply by deciding what was the fair rate of return to apply for in our submission and we decided on 9½ per cent net of income tax, after giving consideration to various factors.

Q Well do you think the fact that you are getting a straight ten years' amortization, straight line basis of amortization, does to some extent lessen the risk on your investment?

A Yes, to a certain extent, although the risk, that was only one of several factors in connection with asking for a 9½ per cent return. By having a 10 per cent amortization return, the risk, the element of risk was considered at the time.

Q Would you say that the B.A. Utilities operation has more risk attached to it than the Madison operation?

A I am not familiar, sufficiently familiar with the Madison operation. I understand they have got a line several times the length of the British American operation, so to that extent their risk is spread over 30 years as against ours being spread over 10 years.

Q Can you tell me this, Mr. Donellan, we might drop that. Is B.A. Utilities going to submit a witness in regard to the rate of return with a considered submission?

A The matter has been discussed but no decision has been arrived at. I would assume at the moment it is my responsibility to justify why I want the 9½ per cent.

Q I see. Well let us go into this matter of risk to some extent. Would you say the risk assumed by the B.A. Utilities is more or less than the risk assumed by the Calgary Gas Company in their operations?

A Oh, considerably greater. They have a bigger volume, they

have a greater life and they have a longer period. They have a safety of market and they have potential new sources of supply which geologists are looking for 24 hours of the day which may come in. I should say that our operation is considerably more hazardous than theirs.

(Go to page 3111)

Q Would you say that the Madison Company is standing between the two of you, as it were ?

A I would say that their operations are similar; the Madison has got a lesser risk than we have but I think the shorter life of our plant compensates one against the other so I have not overlooked the uniform rate for both of us. We have an advantage in the ten year amortization.

Q Now have you given consideration to this fact that the rate of return and the composition of the rate base itself are related ?

A The rate of return and the composition of the rate base ?

Q I will illustrate it this way, that if the rate base is a liberal rate base and based on your reproduction costs new that the Board in arriving at the rate of return should have a lesser rate of return than if they used a rigid basis for establishing the rate base ?

A No, I do not agree that they should. The assets in my opinion should be taken over at cost or on a basis established as being fair by the Board and that should be considered and left on its own merits. The rate of return should be settled again on its own merits.

Q Well the reason I am putting that to you is because I notice in the text books that a change - you start with a rate of 6% I think and that if you increase the rate of return by 1% it is equivalent to a 16 2/3% in the rate base ?

A Oh yes, there is a direct relationship in the arithmetical statement.

Q So that I suggest to you that if the Board should be liberal in allowing reproduction costs new, that then some adjustment in the rate base should be also proper, some adjustment ?

A There may be some adjustment, some reduction over the 9½% but

I would not agree with that because we can justify the 9½% on another angle. I heard the evidence of Mr. Baker the other day of 678 companies getting an overall earning of 9.04%.

Q THE CHAIRMAN: On both Common and Preferred ?

A Yes, so I took the corresponding values of my own Company and found that in 1934 we earned 11.101%. I did not have the complete balance sheet with me but I went back to 1938 and found the average over those years is 11.37%.

Q MR. McDONALD: That is the British American ?

A That is the British American Oil Company, that is what I am talking about now. I just wanted to compare my own public utility sheets with the figures Mr. Baker was talking about. I was interested in his 9.04% with respect to my 9½% and I remembered having worked those out when we had this argument at the head office as to the rate to be asked for and I looked up the figures, so that is the corresponding figure to the 9.04%.

Q Your submission or your suggestion is, as I take it, that the British American Oil Company could have taken this amount of money which it has now invested in this undertaking and invested it in other phases of their operation and on the basis of five or six years - -

A Experience.

Q Five or six years experience, it might have earned - -

A It would have earned 11.37% over and above income taxes.

Q That would be in marketing, refining, oil development ?

A The whole operations of the Company from marine to service station.

Q Now there is one, if you will turn to Page 3, of Exhibit 113 (A) I am sorry Mr. Donellan it is 113 (B), that is the one with the gathering costs submission regarding estimated costs

of gathering, repressuring and transmission costs, Page 3.

THE CHAIRMAN: Otherwise Volume 5.

Q MR. McDONALD: Volume 5, sir. Now you set out there that the operating costs of the high pressure compressor station is divided between the cost of transmitting gas and the cost of repressuring gas on a basis of estimated throughput ?

A Yes.

Q Transmitting gas 42%, repressuring gas 58%; now I take it that relation was carried through to capital expenditures, the rate of return - -

A Yes.

Q Operating costs ?

A And the operating costs, administration, capital expenditures and rate of return.

Q Do youknow how much of the capital expenditures of that high pressure compressor station was actually required in order to meet the peak load ?

A I am afraid I did not get that.

Q I am suggesting to you that all of the capital investment of that high pressure compressor station, all of the machinery there, is required to meet the peak load ?

A Yes.

Q In the winter months ?

MR. HARVIE: For the Calgary market.

Q MR. McDONALD: Yes, I mean the peak market load, do you know that, do you know the answer as to that ?

A No, but here again as before I say we did not approach this Volume 5 on that basis. We simply got the volume, the total amount of money which, - originally we intended to stop with Volume 3 to conduct the operations of the utility service. Now

that cost of operation includes its share of capital expenditures and its share of rate of return. We have never anywhere allocated so much plant as being the investment for this or for the other section of the plant; that is taken care of in that over-all percentage and the British American Oil should carry 15% in our submission because it carries 15% of the over-all.

Q So that what you have really done here in making this allocation of "transmitting gas 42%, - repressuring gas 58%" is to pick a method out of the air without giving a great deal of consideration to it ?

A No, I would not say that. I would not agree to that. We did give it consideration and decided that the submission we made was suitable, the most suitable one under the circumstances.

Q Yes.

A There may be others.

Q So far as you know the question of whether the capital expenditures in that high pressure equipment - -

A Station.

Q Station, was necessary to meet the market demands, you did not go into that ?

A No.

Q But that would be an element in starting to decide how the cost should be divided ?

A Well it would be one method.

Q It would be one method and I suggest to you that the capital investment and the rate of return on that capital investment could very well be allocated to the marketing cost of gas rather than the repressuring ?

A Well it would mean a different statement altogether, to break

it up in separate pockets instead of taking the over-all picture as we have done.

Q You have not done that ?

A No, we have not done that.

Q Is there any actual difference in the net result insofar as costs per annum are concerned in having the water system in the utility company or having the utility company purchasing water ?

A It should not make any difference in any cost. The charge that the British American Oil Company would make to the utility would include depreciation and a rate of return and as I stated before as it was such a substantial part of the operations I thought it would meet everybody's convenience better to have it under the control of the Board's engineers and charge it, instead of receiving a charge.

Q By putting it in the Utility Company you gave this Board the authority to determine the value and fix the rate of return ?

A The rate of return, that is right.

Q Rather than do it by negotiation ?

A Rather than on a debit note for the rate for the water.

(Go to Page 3116)

Q Now during this morning you discussed with Mr. Steer the fact that the low pressure system has made available for the absorption plant 31 billion cubic feet of gas ?

A Yes.

Q Is it not true that that 31 billion cubic is also available for a consumer of dry gas ?

A Oh quite.

Q It is available for them ?

A Yes.

Q At that point, now it is true that that 31 billion could be used for processing and will extend the life of the absorption line ?

A To ten years.

Q It also will extend the usefulness for the same period of the line which extends from the British American plant to the Madison scrubbing plant ?

A Yes, the one is just -

Q And if it was constructed only to use that gas its life would have been as short as the absorption plant ?

A As the absorption plant - I think I could explain further, wholly from that, while the 18½ billion feet is the estimate of what is going through the high pressure system and the 31.75 is the estimate of what is going through the low pressure system, that is the condition as it was at the time Mr. Steer asked for 1st January 1945. I am not prepared to say that 18.57 is the ultimate of the high pressure system. Our engineers might be able to by turning some valves and reduce pressure at the high pressure plant and considerably increase that 18 billion. That is the condition as it is at the construction of the plant, 18.57 is the estimate going to high

pressure and 31.75 low pressure.

Q And the point you raise is this, instead of operating absorption plant at 150 pounds intake as it is as a high pressure plant, it might have been reduced to 100 pounds ?

A Some reducing scale which I would think as a layman, I do not know much about these things, but I take it it would have an effect on that 18.57 billion.

Q So that whatever would be the result of that type of operation it would work both ways would it not. The increase in the extent of the life of the plant may not be necessarily attributable in whole to the low pressure system ?

A That is why I hesitated this morning about this three year life and again the three year life and the ten year life. I want to say while I recall the evidence there was something about three year life. It does seem to me there is a possibility of there being something other than three years.

Q THE CHAIRMAN: But must we not deal with realities and what they are and not on problematical capability of the future ?

A 18.57 and 31.75 are the figures as they were on January 1st, 1945.

Q MR. McDONALD: Carrying this 31 billion of low pressure gas farther you have got it to the Madison scrubbing plant. Now if 31 billions are processed in the Madison scrubbing plant that will have an effect on the net cost of scrubbing operations at the plant will it not ?

A I would say, yes.

Q And it will also have an effect after it is scrubbed and transported to the consumer. It will have an effect on the net cost of operations there and the life of the transmission

system that runs from the scrubbing plant to the City of Calgary and the other places ?

A - In general, yes. I do not know anything about the other plants but there is obvious connection between the two.

Q So that the whole benefit of the low pressure system is not stopping at the British American absorption plant ?

A Well by no means.

Q Now I notice as I read your submission, Mr. Donellan, in allocating the cost of gathering the gas you have apportioned 15% to the absorption plant ?

A Yes.

Q And 85% to the dry gas operation. Now did you give consideration to any other method of allocation ?

A It was the subject of several discussions amongst the engineers and as I say we hesitated whether it was within our field to even suggest anything. We felt we could make our submission and it boiled down. I personally was not involved in any other consideration other than this one.

Q Arising out of your discussions with Mr. Steer as to the change in the different poundage of the product, that is prior to the war the product was 26 pounds ?

A You are talking now of the output of the Turner Valley absorption plant ?

Q Yes, prior to the war it was a -

A Twenty-six pound pound product up to the middle of 1943 and it was changed up to forty-five pounds.

Q And if you are going to allocate these costs on a gross realization basis the fact that poundage may have dropped in the near future to twenty-six pounds again would throw your allocation out ?

A If there was a suggestion that the statement was a cost realization basis I would throw it into the hands of whoever wanted it and to have the responsibility of defining what he wanted to use for the purposes of realization. Those products whether twenty-six pounds and forty-five pounds is not a finished product. It is only a component part of other materials to be manufactured for sale and what is its realization goodness only knows. The costs of production or are you going to take the Turner Valley posted price which for normal purposes suffices, but I have seen the time when we could buy natural gasoline laid down for a fraction of the Turner Valley posted price. I would say it is simply impossible to give you the sales without definitions and reservations to an unlimited degree. I cannot give you the realization on a product of the Turner Valley absorption plant if it was asked me.

THE CHAIRMAN: Could you lay down natural gasoline in Calgary for a fraction of the Turner Valley posted price ?

A At one time during the depression when a lot of labour was depressed. The situation generally speaking, the posted price in Turner Valley is equivalent to its market value.

Q It is not a free market ?

A No.

Q It is the old story of the man with five turkeys and only one buyer, the buyer fixes the price ?

A Yes.

Q And the man with one turkey and five buyers, he fixes his price ?

A And then you have another difficulty which I mentioned and that is the Montreal alkylate plant closing. Since we have been sending forty-five pound products to the alkylate plant we got back from the alkylate plant the product after they have

taken their iso-butane with the resulting product and alkylate and high octane is now buried in inventories all over the country in 100% octane.

DR. BOOMER:

Q Is the Montreal plant closed ?

A I got a telegram stating it was closed the day I got home.

Q Do you know the set-up of the Montreal plant as compared with your plant ?

A I know that the Government own that plant definitely in Montreal.

Q I am speaking of the technical operation ?

A I don't know about that. The point I was working to was trying to clarify my stand of sales realization of the out-put which in turn has got this Turner Valley product, a lot of it, 100% octane with tremendous inventories. I have been in discussion with our manufacturing department as to what is going to happen to the 100% octane. Will it be degraded, will it keep or not keep. When are they going to realize on it. No profit is made on it until it is sold.

Q MR. McDONALD: What have you to say to this proposition, Mr. Donellan. In the event this depreication is taken on a straight ten year basis and no allowance for salvage added at the expiration of the useful life of this equipment would the British American Utility Company be entitled to the capital recovered from the salvage that may be obtained ?

A Well that is a point for the future and that seems to me to be absolutely inevitable, that the matter of salvage value and the right and title to that plant will have to receive consideration at some subsequent hearing. The salvage value will have a lot of bearing on that subject matter. I can hardly appreciate that my Company would say, all right we have 100% return on our investment, goodbye, we do not want the equipment. It

is a matter for the future, that the question of salvage value when we work from there, we did not feel competent to try and forecast developments in the ten years so we eliminated any consideration of salvage value in this submission.

Q Now dealing generally with the British American submission Mr. Donellan,when the Board Order No. 1 was under consideration say the facts from which the Board itself dealt and those other parties interested were based generally on the submissions made and filed as Exhibit 1 and the commitments shall we say or support given the application by the British American for Order No. 1, were predicated upon those suggested costs in Exhibit 1 being more or less accurate. What I mean by that within a reasonable bound of error. Now what would you say with the result that has been shown by actual expenditures, is it reasonable or otherwise ?

A I cannot say whether it is reasonable or unreasonable. I can just report on the facts as I see them in the books.

Q Well what I have in mind is this situation. That Order No. 1 was issued on the basis implied at least that the British American Company would be allowed a ten year depreciation straight line basis and after all the facts are in and submissions as we have them now, would it be open to argument by any party interested in the hearing to say that basis of depreciation should be a unit basis of depreciation, which may extend the life of this to fifteen years ?

A Submissions could be made but whether it would be acceptable or not I do not know. The Board's orders are given and have to be obeyed.

THE CHAIRMAN: I suppose, Mr. McDonald, it is open to anyone to argue anything?

Q MR. McDONALD: Well I have several factors in mind. Depreciation is only one of them.

A Certainly, this plant should have a direct relationship to the volume of throughput during the ten years. I note that in the original discussion it was felt to be safe that a seven year period should be considered.

Q Yes.

A And then it was revised and adjusted to a ten year.

Q Well/what I have reference to is this, that in Exhibit 1(A) submitted by Mr. McCutchin, he gives the unit costs of various items on gas being handled in various stages over the 1t years. You would not suggest that those unit costs are anywhere near accurate?

A No, because those are unit costs based on this $480.000.00, on his error in connection with the 9½% rate of return, on the computation of salvage value and on his estimated costs of operations.

Q Now if commitments have been made and the scheme has been put into effect based on Mr. McCutchin's costs, as shown in Exhibit 1, and Exhibit 1(A), and adjustment now has to be made, would it be reasonable to make adjustments which would in part show the, shall we say, detrimental effect of such adjustments on the British American Company?

A No, in my opinion, it would not. That would be settled. The British American Oil Company with the hazards which have turned out, which is not necessarily due to the British American Company inefficient engineer, and I do not see why the British American Oil Company should be asked to

support a heavier charge. If this Company had been financed by outside capital and the capital had to be raised, there could not have been any discussion along that line?

THE CHAIRMAN: Then of course the Company could go into bankruptcy and somebody else could buy it up?

A Yes.

Q At a figure that might be closer to the estimate than the actual was?

A Yes.

MR. McDONALD: Mr.Chairman, there are one or two points that I was going to leave with Mr. Blanchard to deal with.

THE CHAIRMAN: All right. Mr. Chambers, do you desire to take part in this cross-examination?

MR. CHAMBERS: I have one or two subjects to cover. I could go along with that, but it did occur to me that Mr. Blanchard might cover them with what he has in mind and if that were so it might save time and I would prefer Mr. Blanchard should go first. For that very reason I prefer to go on after Mr. Blanchard, for that reason and for that reason alone.

THE CHAIRMAN: Are you willing to accept the nomination, Mr. Blanchard?

MR.BLANCHARD: I will go as far as I can, but Mr. Chairman, we would like to go into the seven months' operating charges that we have received, and I have not had an opportunity to look at it. No doubt Mr. Donellan will be available tomorrow.

THE CHAIRMAN: He will be available until Thursday, I understand.

WITNESS: Yes.

MR.BLANCHARD: All right, I will go on then now.

.....

CROSS-EXAMINATION BY MR. BLANCHARD.

Q By the way, in connection with your operating costs statement for the 7 months, that is Exhibit 113(C), the total operating costs for the low pressure compressor station is $14,703.43. No part of those costs are allocated to the absorption plant operations?

A No.

Q Why?

A For the low pressure compressor station?

Q Yes?

A Because the gas - I do not know why outside of the fact that the absorption plant operation operates on high pressure, and the engineers felt that theyshould bear a proportion of the cost of collecting but not of compression.

Q But is not that compression used to bring the gas to the absorption plant?

A Yes.

Q THE CHAIRMAN: Surely it not suggested that this low pressure system was put in for the benefit of the City of Calgary, surely you are not going to maintain that?

A That is the way the submission is made.

Q Yes, I know, but I want your opinion. Surely you are not going to maintain that this Board authorized the installation of a low pressure system at a high cost for the benefit only of the City of Calgary? I am sorry, Mr. Blanchard, I should not have interrupted you.

Q MR.BLANCHARD: You were saying to my learned friend, Mr. McDonald, that your net earned income of British American Oil Company Limited was 11 decimal something?

A Yes.

Robert Donellan,
Cross-Exam. by Mr. Blanchard.

Q Is that correct?

A That is correct.

Q And that was on book values?

A On the corresponding book values that Mr. Baker was referring to in his evidence.

Q Yes. I assume that your Company is probably one of the 678 companies that were involved. You would not know that, I suppose. But may I take it, for instance, your book values relating to your gathering lines, that is the high pressure gathering lines, now your book value for your high pressure gathering lines is $27,000.00 as against your appraised value, that is the This appraisal of $154,000.00?

A Correct.

Q I am wondering whether your book values in relation to all the assets of the British American are along about the same line, that is comparing the book values with the reconstruction cost today and so on?

A Well if we are going to express the Company's total profit in ratio of book value of plants, the percentage goes up from 11 to 14%. I say the 11%.....

Q May I point this out then. I want to make this point because I have not the other figures before me. Taking your gathering lines?

A Yes.

Q Where your book values are only $27,000.00, that is, between a fifth and a sixth of the value at which you seek to put them in here in the rate base?

A Correct.

Q Now then, on that basis, your earned net income would only be around 2%, isn't that correct, on those gathering lines?

A No, I do not think you can take an over-all picture of a company's sixty-eight million dollars worth of assets, and pick out one little section of gas gathering lines and say that the book value of that plant is one-sixth of current costs, therefore the earning capacity of one-sixth. No, I do not think there is any relationship at all.

Q Well you argue that you are entitled to 9½% because the 678 companies make 9.04 on net earned income?

A Because my own company in particular earns 11.01.

Q And I am pointing out that that is on your book values?

A I say that is on book values corresponding to Mr. Baker. It is not on the book values of physical assets. It is on book values corresponding to Mr. Baker's estimate of $27,671,000.00. The book values of physical assets less the depreciation is 22 million. I mean we must make sure what book values we are talking about, book values of physical assets or book values of the company.

(Go topage 3127)

Q Well, what are your physical assets put in at?

A The gross are 44.8 million less reserve for depreciation of 22.8 million, making 22 million fixed, so that the percentage of the basis of fixed assets valuation is 14 after applying normal depreciation.

Q Are other assets not depreciated to the same extent as your gathering lines?

A The total capital employed in the company consists of inventories, first charges, accounts receivable and the whole assets of the company.

Q Yes. Including . . . . . .

A Possibly I will file this as an Exhibit and then it can be referred to.

Q Yes, I would like to have it.

A I suggest that I file this as an Exhibit and say with it that the net profit of $3,050,000 shown on the Profit & Loss statement represents 11.01 per cent of the capital and surplus item of $27,691,784.22 on that balance sheet.

Q MR. HARVIE: For 1944?

A Yes. Which is the figure corresponding to the statement referred to in evidence by Mr. Baker.

THE CHAIRMAN: It is the annual report, is it?

A Yes the annual report for the year 1944.

Q Exhibit 116.

ANNUAL REPORT FOR 1944 of THE BRITISH AMERICAN OIL COMPANY LIMITED NOW MARKED EXHIBIT 116.

A I would like to add another comment on that. The value of plant equipment, etcetera, on this balance sheet is $44,800,000 less a reserve of $22,800,000 so that the net profit for the year, after providing for income tax, represents approximately 14 per cent.

Q MR. BLANCHARD: Now your physical assets are based, I suppose, on the historical costs as shown by your books, less depreciation.

A Correct.

Q That is correct, is it?

A Right.

Q They are not based on reproduction cost new today?

A No.

Q Less observed depreciation?

A No.

Q No. All right. And if you took the value in your books of the physical assets, and put them on a basis of reproduction cost new today, you still have 11 or 14 per cent.

A On the capital employed?

Q Of a return?

A On capital employed but not on book value of fixed assets.

Q Not on your book value?

A No.

(Go to page 3129)

Q Now you have made out . . . . . Oh, I wanted to stress this. Your Exhibit 1, which is the British American Oil Company Limited's plan, which has been very thoroughly discussed by Mr. Steer, in that of course you did not mention at all the high pressure lines?

A No.

Q Gathering system at all?

A No.

Q And as Mr. McCutchin said in his evidence at the time that that plan of yours, Exhibit 1, was being considered there was no intention of putting in the high pressure lines?

A Correct.

Q That meant that there was no intention of asking that that be put into the rate base, that is correct is it not?

A In the rate base, yes.

Q And at that time this Board was considering the economics of whether it was an economical proposition to accept the plan proposed by the British American Oil Company Limited as against the Madison-A proposal.

A Correct.

Q And is it your idea that this Board had any conception that after, at a later date, that your company would seek to add the high pressure lines to the rate base?

A I do not know that anybody had any conception at that time. It was a matter of the development of the plan and it got put into effect.

Q MR. HARVIE: And legislation.

Q MR. BLANCHARD: The legislation was in force at the time you submitted your plan was it not?

A Yes, I think it was.

Q And clearly you led the Board to understand that the high

pressure lines, that you would not seek to put the high pressure lines in the rate base. There is no doubt about that at all is there?

A I am not prepared to say.

Q No doubt at all. Well, assuming that they are going in, at least on the assumption that they might, I refer to your break-down or rather to your Exhibit 102(C) in which you take in the Teis appraisal and adjust it to the basis of Mr. Hill's unit cost.

A Yes.

Q That is correct?

A Correct. Of course, I do not want any misunderstanding to develop over that. That, as I brought out, somebody had referred to it last Thursday and I was just explaining why I accepted the Teis appraisal. This is a copy of some work sheets which were made.

Q But it does give us some basis.

A Some comparison between the two.

Q Comparison, yes.

A Yes.

Q Now then the difference between your work sheet attached to 102(C), one of the differences is that you are not taking observed depreciation. You are taking Mr. Hill's straight line depreciation basis.

A I wanted to express our plan on Mr. Hill's basis. This was a statement for the purpose of showing that the two, what the relationship was, if any, between the two appraisals. This is deliberately trying to express our appraisal on Mr. Hill's valuation.

Q Tell me, was a great deal of the pipe second-hand pipe when it was put in by the British American Company?

A There was some second-hand pipe. I do not know whether I am prepared to say a great deal. There was some. Whether you mean by a great deal more than half or less than half, I do not know.

Q You are treating all the pipe, I mean to say in your adjustment on your working sheet, you are treating all the pipe as being new pipe when it was put in.

A If that was Mr. Hill's basis. I took Mr. Hill's appraisal of the pipe and applied it to the value of the pipe line.

Q You are not making any allowance for such pipe of yours as was second-hand?

A No.

Q Then you are not taking Mr. Hill's unit cost for pipe fittings.

A No.

Q You are using his unit cost for actual labor of installation, putting the pipe in but not his unit cost for your pipe fittings.

A I appended a sheet on that. On page . . . . my copy has not got it. Oh yes, it is on page 6. With regard to pipe fittings there had not . . . . .

Q Where is this?

A This is the last page of that Exhibit 102(C).

Q I have it.

MR. HARVIE: I think that was prepared after the distribution - it is in the copies distributed this morning but it was prepared after the distribution of the Exhibits submitted last week.

Q MR. BLANCHARD: Well . . . . .

A That just explains when I was looking over it, I said "we have not answered that question and somebody will want to know why I did this." I applied that test on the meters.

THE CHAIRMAN: Mr. Blanchard, would you rather defer your cross-examination of the documents filed this morning?

MR. BLANCHARD: Yes, I would, sir.

THE CHAIRMAN: All right.

Q MR. BLANCHARD: I just wanted to point this out to you, taking your working sheet here you have added 10 per cent contractors' profit throughout to Mr. Hill's unit prices, have you not?

A 10 per cent contractors' profit, I have not.

Q Well just let me refer . . . . .

A I have added 10 per cent supervision and administration.

Q Let me refer you to Mr. Hill's unit prices which are part of Exhibit 59.

A Mr. Hill's unit prices include contractors' profits. My figures include contractors' profits but I have not added 10 per cent contractors' profit over Mr. Hill, which is what I understood you to say.

Q No, you have taken Mr. Hill's unit cost with 10 per cent included.

A Yes. I have just taken it straight.

Q Because he adds 10 per cent contractors' profit to his unit cost but he explained that that was only used where the work was done by a contractor and not by the company.

A Yes.

Q Now is that the basis under which you are using that 10 per cent?

A I am simply using the over-all - in other words, I am working that on the basis that our own labor and the contractors' labor would be uniform. I have simply said "I want to get a picture of our plant using Mr. Teis' valuation."

Q Mr. Hill's valuation.

A Mr. Hill's valuation.

Q But then you did not do it, you see.

A Well I thought I did.

Q And I will tell you why you did not do it. Mr. Hill, in his valuation of pipe, only added contractors' profit where the work had been done by the contractor and did not add it in any cases where the work was done by the company itself.

A Well I will check these unit prices back in the recess. The instructions I gave were to give me Mr. Teis' inventories using Mr. Hill's prices.

Q If you are going to check that, might I suggest this, when you take your unit construction costs on your work sheet, that is under B of your work sheet.

A Yes.

Q You will find that these are the correct figures for your labor unit costs. Would you mind just putting them down?

A Yes, I will.

Q For the first item - I will just take them in rotation from the top - instead of 24.17 cents it will be 21.7 cents. The next item will be 63 cents instead of 75.

MR. HARVIE: Are you going to copy all these down?

MR. BLANCHARD: I can give that to Mr. Donellan.

A Yes, if you will.

MR. CHAMBERS: And I would kind of like to get them too.

THE CHAIRMAN: Mr. Blanchard, I interrupted you this morning wwhen you were cross-examining him on the low pressure station. Did you intend to follow that up at all?

MR. BLANCHARD: Well, I do not think I can go any further at the moment, sir.

THE CHAIRMAN: I mean when I interrupted you I might have stopped you.

MR. BLANCHARD; Well, the point I desired to make was if the low pressure station was engaged in delivering gas to the absorption plant it should be in no different position that the gathering lines.

THE CHAIRMAN: I wish you would follow that up a little further.

MR. BLANCHARD: Very well, sir.

THE CHAIRMAN: Then we will adjourn.

(At this stage the Hearing was adjourned until 9.30 A.M. 19th September, 1945.)

: : : : : :